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May 22, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
Office of the Secretary
1919 M Street, NW - Room 200
Washington, DC 20554

Re: Proposed Revision of Maximum Collection Amounts for Schools and
Libraries and Rural Health Care Providers, CC Docket 96-45, DA 98-872.

Dear Ms. Salas:

The enclosed letter was delivered to Chairman William E. Kennard today for inclusion in the record of this proceeding.

Sincerely,

A handwritten signature in black ink that reads "Rick D. Bailey".

Enclosure

Copy to: S. Todd

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Vice President - Federal Government Affairs

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May 22, 1998

The Honorable William E. Kennard, Chairman
Federal Communications Commission
1919 M Street, NW, Room 814
Washington, DC 20554

Re: Proposed Revision of Maximum Collection Amounts for
Schools and Libraries and Rural Health Care
Providers, CC Docket 96-45, DA 98-872

Dear Chairman Kennard:

On May 13, 1998, the Commission released the above-referenced Public Notice seeking comment on whether the quarterly collection rate for the schools and libraries universal service mechanism for the third and fourth quarters of 1998 should be adjusted to a level such that the incremental impact (as compared to the second quarter collection rate) would be offset by projected interstate access reductions to be effective July 1, 1998. Specifically, the Commission proposes to collect no more than \$524 million per quarter for the third and fourth quarters of 1998 to support the schools and libraries program based on an anticipated \$700 million access reduction July 1, 1998. The \$524 million is in lieu of the \$690 million quarterly amount that the Schools and Libraries Corporation submits is required to meet 1998 anticipated support requirements of \$2.02 billion. The Commission apparently believes that by ensuring that the collection rate for schools and libraries does not exceed access charge reductions, the net impact on interexchange carriers will be zero, and consumer rates will not have to rise.

First, AT&T agrees that it is important to manage the size of the schools and libraries universal service fund to be consistent with the statutory limitation that the program fund only telecommunications services. As AT&T has continually advocated, and most recently in connection with the FCC's Report to Congress on Universal Service,



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internet access and internal connections are outside that statutory directive.¹

Second, although AT&T recognizes and wholeheartedly supports the need to contain the size of the Universal Service Fund, the Commission's proposal to link access charge reductions to universal service support, as a means of reducing the impact of this cost burden on consumers, misses the point. There is no inherent linkage between schools and libraries universal service support and access reductions. The schools and libraries universal service program is a new program that was initiated in 1998 pursuant to the Telecommunications Act of 1996. As such, it requires sufficient funding to provide discounts for telecommunications services to eligible institutions. Access reductions are part of the FCC's ongoing price cap regulation in CC Docket 94-1 and other access reform initiatives in CC Docket 96-262. To link the dollar amounts at issue in these proceedings does nothing to correct the fact that the schools and libraries fund may be too large, and access reductions are too small.

Third, it is not necessarily the case that interexchange carriers could apply any access savings to offset the costs of funding the schools and libraries program. To the contrary, as AT&T has repeatedly demonstrated, competitive market forces demand that AT&T (and presumably other IXCs) apply access reductions to permit customers to pay lower usage rates for service. Thus, the access reductions that occur in July 1998 (or any other time) will be translated into lower market prices for long distance customers, and FCC regulatory "permission" notwithstanding, cannot also serve to buffer interexchange carriers or their customers against the costs of new social programs.

Moreover, the midyear 1998 access reductions hardly put a dent in the excess profits local exchange carriers earn from their inflated access charges, and use for anticompetitive purposes. Indeed, tying support for schools and libraries to access reductions will leave the LECs with incredibly bloated access profits. Accordingly, rather than calibrating the schools and libraries program to access reductions, the Commission should immediately

¹ See, e.g., AT&T Reply Comments on Report to Congress, filed February 6, 1998, at 9-10, in Federal-State Joint Board on Universal Service, CC Docket 96-45; Id. AT&T Comments on Joint Board Recommended Decision, filed December 19, 1996, at 17-21.

prescribe access charges at cost-based levels, as the Consumer Federation of America and MCI have requested.² The combined effect of these actions would enable access charges and long distance prices to be reduced by over \$10 billion.

Respectfully yours,



cc: The Honorable Harold Furchtgott-Roth
The Honorable Susan Ness
The Honorable Michael Powell
The Honorable Gloria Tristani
FCC Secretary's Office

² Request for Amendment of the Commission's Rules Regarding Access Charge Reform and Price Cap Performance Review for Local Exchange Carriers, RM No. 9210, Consumer Federation of America Petition for Rulemaking (filed December 9, 1997); Tariffs Implementing Access Charge Reform, CC Docket No. 97-250, MCI's Emergency Petition for Prescription (filed February 24, 1998).